Wall Street crackdown, consumer guards, are passed

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- By: By: The Associated Press

WASHINGTON (AP) - Congress on Thursday passed the stiffest restrictions on banks and Wall Street since the Great Depression, clamping down on lending practices and expanding consumer protections to prevent a repeat of the 2008 meltdown that knocked the economy to its knees.

A year in the making and 22 months after the collapse of Lehman Brothers triggered a worldwide panic in credit and other markets, the bill cleared its final hurdle with a 60-39 Senate vote. It now goes to the White House for President Barack Obama's signature, expected as early as Wednesday.

The law will give the government new powers to break up companies that threaten the economy, create a new agency to guard consumers in their financial transactions and shine a light into shadow financial markets that escaped the oversight of regulators.

Large, failing financial institutions would be liquidated and the costs assessed on their surviving peers. The Federal Reserve is getting new powers while falling under greater congressional scrutiny.

From storefront payday lenders to the biggest banking and investment houses on Wall Street, few players in the financial world are immune to the bill's reach. Consumer and investor transactions, whether simple debit card swipes or the most complex securities trades, face new safeguards or restrictions.

"I'm about to sign Wall Street reform into law, to protect consumers and lay the foundation for a stronger and safer financial system, one that is innovative, creative, competitive and far less prone to panic and collapse," Obama said.

"Unless your business model depends on cutting corners or bilking your customers, you have nothing to fear."

Republicans said the bill is a vast federal overreach that will drive financial-sector jobs overseas. Before the final vote was even cast, House Republican Leader John Boehner called for its repeal.

At an eye-glazing 390,000 words -- half the size of the King James Bible -- the legislation doesn't offer a quick remedy, however. Rather, it lays down prescriptions for regulators to act. In many cases, the real impact won't be felt for years.

One of the top regulators who will be charged with implementing the law, Federal Reserve Chairman Ben Bernanke, said the Senate vote represents a "far-reaching step toward preventing a replay of the recent financial crisis."

The Senate's final passage of the bill, two weeks after the House approved it, is a welcome achievement for a president and congressional Democrats, both increasingly unpopular with voters four months from midterm elections that threaten to put Republicans in charge of Congress. Only three Republicans voted for it -- Maine Sens. Olympia Snowe and Susan Collins, and Massachusetts Sen. Scott Brown. Democratic Sen. Russ Feingold of Wisconsin, who has said the bill is not tough enough, voted with most Republicans against it.

The law has been a priority for Obama, ranking just behind his health care overhaul enacted in March. In its final form, the package hews closely to the plan unwrapped a year ago by the White House and in some ways is even tougher. White House spokesman Robert Gibbs promptly cast the vote in political terms.

"This will be a vote that Democrats will talk about through November as a way of highlighting the choice that people will get to make in 2010," he said.

The political benefits, however, stand to be overshadowed by lingering high unemployment. And Republicans were betting that public antipathy toward big government and worries over jobs would trump their anger at Wall Street.

"We're going to be driving jobs and business overseas with this massive piece of legislation," said Sen. Saxby Chambliss, R-Ga.

Sen. Richard Shelby, R-Ala., who worked with Democratic Sen. Christopher Dodd of Connecticut on certain aspects of the bill, denounced it as a "legislative monster."

Named after Dodd and Massachusetts Rep. Barney Frank, the Democratic committee chairmen who steered it to passage, the legislation ends a trend toward looser regulations that peaked in 1999 with the elimination of Depression-era walls separating commercial banking from riskier investment banking.

And though it calls for the biggest changes in generations, it does not approach the scope of the New Deal banking rules enacted under President Franklin Delano Roosevelt. That era saw the creation of the Federal Deposit Insurance Corp., to protect consumer deposits, and the Securities and Exchange Commission to oversee the markets.

The Dodd-Frank law will create a Consumer Financial Protection Bureau empowered to write and enforce regulations covering mortgages, credit cards, and other financial products. Lenders face new restrictions on the type of mortgages they write and could not be rewarded for steering borrowers to higher cost loans.

Borrowers are to be protected from hidden fees and abusive terms, but also will have to provide evidence that they can repay their loans, thus halting the no-document loans that had flooded the markets.

The

vote Thursday capped a year of partisan struggles and cross-party courtship. Any remaining uncertainty about the bill's fate vanished earlier this week when it became clear three Republican senators would vote for it, thus assuring 60 votes to overcome procedural obstacles.

Industry lobbyists fought against a number of restrictions in the bill, ultimately winning some concessions. In the end, the final bill was tougher than they wanted but not as restrictive as they feared.

"The result will be over 5,000 pages of new regulations on traditional banks and years of uncertainty as to what the massive new rules will mean," said Edward Yingling, president and CEO of the American Bankers' Association.

Republican opponents also criticized the bill for not addressing mortgage financing giants Fannie Mae and Freddie Mac, whose questionable lending helped start a collapse in the housing market.

Some supporters of the bill also voiced reservations, claiming the bill did not give regulators specific direction on how to implement and enforce new rules.

"Congress largely has decided instead to punt decisions to the regulators, saddling them with a mountain of rule-makings and studies," said Sen. Ted Kaufman, D-Del.

For all its ambition and reach, the legislation is dotted with exceptions.

Community banks won't have to be examined by the new consumer bureau and would get a break on higher insurance premiums. Despite calls to end proprietary trading by large banks, the law will let them put up to 3 percent of their capital in hedge funds or private equity funds. Auto dealers won't be covered by the rules of the consumer bureau.

"It is not a perfect bill, I will be the first to admit that," Dodd said. "It will take the next economic crisis, as certainly it will come, to determine whether or not the provisions of this bill will actually provide this generation or the next generation of regulators with the tools necessary to minimize the effects of that crisis."